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PATENT

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re application of: Robert L. Cadoux

Application No.: 09/491,388 Group Art Unit: 3628
Filed: January 26, 2000 Examiner: Milef

For: A SERIALLY STAGED, INITIAL PUBLIC STOCK OFFERING METHOD

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PATENT

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicant:	Cadoux, Robert	)	**Examiner:**	Milef, Elda G.
		)		
Serial No.:	09/491,388	)	**Art Unit:**	3628
		)		
Filing Date:	Jan. 26, 2000	)	**Attorney Docket No.**	99629

Title: A SERIALLY STAGED, INITIAL PUBLIC STOCK OFFERING METHOD

APPEAL BRIEF OF APPLICANT ROBERT CADOUX

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Applicant for the above-identified patent application, Robert Cadoux, submits this appeal brief in accordance with the provisions of 37 C.F.R. Part 41 in response to the Office Action dated July 19, 2005, and pursuant to the Notice of Appeal filed October 13, 2005. A check for the appropriate fee under 37 C.F.R. 41.20(b)(2) is enclosed.

I. REAL PARTY IN INTEREST

The real party in interest is the Applicant, Robert Cadoux.

II. RELATED APPEALS AND INTERFERENCES

An appeal was previously filed for this application on April 13, 2004. After filing of the Applicant's Brief in that appeal, the Office withdrew the then-pending rejections and issued a new Office Action with new rejections, to which the Applicant responded. Subsequent rejections of the pending claims by the Office have led to the present appeal.

Applicant is not aware of any other appeals or interferences that will directly affect or be directly affected by or have a bearing on the decision of the Board of Patent Appeals and Interferences ("Board") in the present case.

III. STATUS OF THE CLAIMS

In the final Office Action mailed July 19, 2005 (hereinafter "the Office Action"), pending claims 27-39 of the present application were rejected as being obvious under 35 U.S.C. § 103(a) and for lacking patentable subject matter under 35 U.S.C. § 101. Subsequently, on October 13, 2005, Applicant filed a Notice of Appeal. Each of claims 27-39 stands rejected and subject to this appeal. The text of claims 27-39 is set forth in the Appendix hereto.

IV. STATUS OF AMENDMENTS

Subsequent to issuance of the Office Action, on September 6, 2005, Applicant filed an amendment that amended independent claim 27 and added new claim 40. By an Advisory Action dated September 23, 2005, the Office refused entry of the amendment.

The present appeal is proceeding on claims 27-39 as pending when the final Office Action was issued.

V. SUMMARY OF THE CLAIMED SUBJECT MATTER

A. Background

Privately held companies typically launch a public stock offering, called an "initial public offering" (or "IPO"), to raise needed capital to expand their businesses. Traditionally, the company mounting the IPO sets an initial price (the "IPO price") at which the stock will be offered to the public. The IPO price is typically established by an investment banker based on a variety of factors. Oftentimes, however, the price at which the shares trade on the open market after the initial offering greatly exceeds the IPO price. The offering company, however, does not realize the additional capital associated with the enhanced share price of its stock. Rather, the capital raised by the offering company is limited to the number of shares offered at the IPO price (less the underwriter discount) during the subscription stage of the offering. The difference between the aggregate value of the shares after the IPO and the capital raised by the offering company is commonly referred to as "money left on the table," because it represents additional money the company could have raised if the IPO price had better reflected the market demand for the stock.

In some instances, such as with some of the Internet-related IPOs of the late 1990's, the amount of money left on the table, and hence unavailable to the treasury of the offering company, can be staggering. For example, on December 10, 1999, FreeMarkets.com offered 3.6 million shares (or 10.6 %) of its stock to the public in an IPO at an offering price of $48/share. Through the offering, FreeMarkets.com raised $173 million in capital. However, during the first day of trading, the share price for the stock soared from the IPO price (i.e., $48) to $280. If the company and the IPO underwriter had better anticipated the public demand for the company's stock, the company could have instead raised $1.008 billion. Consequently, the company effectively left $835 million on the table.

If there is market demand for their stock, companies who have left a great amount of money on the table may launch a follow-on (or "seasoned") offering to raise additional capital. A seasoned offering, however, is not an initial offering in which a market for the stock is created. Rather, the seasoned offering occurs only after the shares have been traded for a long period of time, usually at least one year, during which time adverse events may occur that negatively affect the share price.

B. <u>Summary of Claimed Subject Matter</u>

The present invention presents a solution to the underpricing problem. According to embodiments of the present invention, the shares offered by the issuing company as part of the IPO are issued in a number (two or more) of serial stages. A first portion is offered by the company in the first stage. Then, after a "predetermined and predisclosed" trading interval, the second stage commences, wherein the company issues a second portion of the shares to be offered as part of the IPO, and so on. The trading intervals between stages may be, for example, a number of hours, a number of days, etc. (limited, however, by regulatory constraints which may require the company to issue a revised offering prospectus if the trading interval is too long). Critically, pricing information is also predisclosed so that potential investors know how the offering price will be determined for each stage. Also, the company may use (and hence predisclose) any number of methods to price the shares offered in each stage, including using pricing methods that go beyond traditional underwriting or market pricing mechanisms.

In some embodiments, the offering price of the shares offered by the company in the second stage is different than the offering price for the shares in the first stage, the third stage is different from the second stage, and so on.

In the simplest embodiment, the offering price for the second stage may be equal to the closing price at the end of the trading interval between the first and second stages. In that simple

way, the amount of money left on the table by the issuing company may be reduced. For example, suppose an issuing company plans to issue 10,000,000 shares of its stock to the public in an IPO. With the present invention, it could issue 5,000,000 in the first stage and issue 5,000,000 in the second stage one day later. If the offering price for the first stage was $10 and the closing price at the end of the first day was $20, the issuing company would collect $150,000,000 in total proceeds from the two offering stages (computed as $10/share times 5,000,000 shares for Stage 1 and $20/share times 5,000,000 shares for Stage 2). In contrast, using conventional IPO structures, the issuing company would only collect $100,000,000 (computed as $10/share times 10,000,000 shares).[1]

In a more complex embodiment, the offering price for Stage 1 could be set by a Dutch auction[2] at $12, and the price of the Stage 2 shares could be a combination of the then market price and a pre-determined discount from the Dutch auction price.

In that connection, in yet a further embodiment, there could be ten (10) stages, each stage one-half hour apart, and each stage priced differently according to different combinations of pricing methods or formula.

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[1] It is this simple embodiment that the Office appears to claim is obvious, since it appears to resemble a very rapid seasoned offering. However, pre-disclosing and committing to the second stage actually leads to a market price at the end of the first day that anticipates additional shares being offered, and so is different from the market price at the end of the day in a traditional IPO where all offered stock has been sold into the market.

[2] A Dutch auction is a specific auction format commonly used for the selling of securities in which a seller has multiple, identical items (e.g., securities) listed for bidding. The seller specifies the minimum price (the starting bid) per item, and the number (quantity) of items offered. Bidders bid at or above that minimum price per item for the quantity of items they are interested in purchasing. At the close of the auction, the highest bidders purchase the items at the lowest successful bid price.

Thus, in various embodiments any number or combination of pricing discovery and setting mechanisms could be used in the IPO, over any number of stages, and over any time period (limited by practical and regulatory considerations relating to disclosure and material change).

Importantly, all of the particulars of the serially staged offering are disclosed beforehand (e.g., before commencement of the first offering stage) so that investors are apprised of the offering structure. This disclosure includes: (1) the number of shares to be offered in the IPO; (2) the number of stages; (3) the number of shares to be offered in each offering stage; (4) the amount of time between successive offering stages; and (5) pricing information for the shares to be offered in each offering stage. By design, therefore, the staged offering method mitigates uncertainty in the prospective investor base and maximizes return to the company's treasury as compared to the unknown of a potential seasoned offering sometime in the future.

In addition, communications regarding the offering of the shares over the offering stages are made via a computer network.

According to various implementations, more than two offering stages may be used. Also, the intervals between successive stages may be of different lengths. In addition, the pricing information may include that the price of the shares offered in one or more of the stages is to be determined, at least in part, by a Dutch Auction, by a direct public offering (DPO), by traditional IPO pricing, by formula discount, or a combination of these or any other pricing techniques.

C. **Advantages of the Present Invention**

The present invention, as explained above, mitigates the IPO underpricing problem because it can increase the amount of money that a company going public can raise in an IPO. Also, as explained further below, the present invention reduces the costs, risks and delays of

doing a conventional IPO followed by, at some later time (which is not disclosed or determined at the time of the IPO), a follow-on or seasoned offering.

Other substantial advantages of the inventive method are that it allows hedging, arbitrage, and pricing strategy opportunities for professional and retail investors that are not available in a conventional IPO or seasoning strategies. This is because the timetable and pricing modalities of each stage is known and can occur over a relatively condensed time frame. Hence, the inventive method allows the use of common quantitative methods of arbitrage, etc., and presents a reduced set of risk factors than currently provided for in IPOs. By using the inventive method, the normal risk discounting that takes place with IPO pricing is reduced and the price achieved by the issuer is increased. Further, the increased strategic pricing and timing options provide critical liquidity to the newly minted offering. Liquidity of a new equity issue is a pivotal factor in the price achieved per share of an IPO. The inventive method's improved liquidity and reduced uncertainty is capable of netting improved pricing, and reducing money left on the table. It also reduces the costs, risks and delays of raising additional capital (capital that may have been left on the table) through a seasoned offering.

VI. GROUNDS OF REJECTION TO BE REVIEWED ON APPEAL

The Office Action contains two grounds of rejection that are to be reviewed on appeal:

1. Whether claims 27-39 were properly rejected under 35 U.S.C. § 101 for failing to recite statutory subject matter; and

2. Whether claims 27-39 were properly rejected under 35 U.S.C. § 103(a) as being obvious over Macklin et al., "Going Public and the NASDAQ Market," *The NASDAQ Handbook*, 1992 ed., in view of Applicant's admitted prior art.

VII. ARGUMENT

A. The Section 101 Rejections Are Improper

In the Office Action, the pending claims (claims 27-39) were rejected under 35 U.S.C. § 101 because they do "not claim the use of technology in the body of the claims." Office Action at 2. The Office Action explains that the claimed invention "must recite technology" in order to satisfy § 101. Office Action at 3.

Applicant respectfully disagrees with the basis for the § 101 rejections. Independent claim 27 and its dependent claims satisfy § 101 for the following reasons.

1. Section 101 Does Not Impose A Requirement That The Claim Must Recite Technology

The Office is wrong in asserting that § 101 imposes a requirement that the claimed invention "must recite technology." The U.S. Supreme Court has stated that Congress intended statutory subject matter under § 101 to "include anything under the sun that is made by man." *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980); *see also Diamond v. Diehr*, 450 U.S. 175, 185 (1981). Given this broad expanse intended by Congress, the Supreme Court has only recognized three specific categories of unpatentable subject matter, "laws of nature, natural phenomena, and abstract ideas." *Diamond v. Diehr*, 450 U.S. at 185; *see also* MPEP § 2106.IV.A.

Here, the claimed invention obviously does not fall within any of these three categories. The claimed invention is a "process," which is one of the four enumerated categories of acceptable subject matter in § 101, that provides a useful, concrete and tangible result, namely enhanced revenue for the company going public. *See State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 47 U.S.P.Q.2d 1596, 1601 (Fed. Cir. 1998) (stating that a claimed invention qualifies as statutory subject matter under § 101 if it provides a "useful, concrete and

tangible" result); *AT&T Corp. v. Excel Communications, Inc.*, 50 U.S.P.Q.2d 1447, 1452 (Fed. Cir. 1999) (holding that a claimed process that applies a Boolean principle to produce a useful, concrete, tangible result without pre-empting other uses of a mathematical formula "comfortably falls" within the scope of § 101 even though no "technology" was recited in the body of the claim).

Indeed, in the recent decision of *Ex Parte Lundgren*, 76 U.S.P.Q.2d 1385 (BPAI 2005), the Board concluded that there is no "judicially recognized separate 'technological arts' test to determine patent eligible subject matter under § 101." *Id.* at 1388. Thus, it is improper for the Office to apply such a requirement for the present application.

2. Claim 27 Explicitly Recites The Use Of Technology

Even if the "technological arts" requirement is applied in this case, independent claim 27 explicitly recites the use of technology. Specifically, it recites that "communications regarding the offering of the shares over the offering stages are made via a computer network." Thus, claim 27 already satisfies the "technological arts" test put forth in the Office Action for determining whether the claimed invention satisfies § 101. Further, the Office Action does not cite any authority for the proposition that there must be a certain level of technology in the claims. Nor does the Office intimate that the current technological limitations in the claims are not quantitatively sufficient. Thus, the pending claims satisfy § 101 based on the "technological arts" standard set forth in the Office Action.

B. The Section 103 Rejections Are Improper And Should Be Withdrawn

Claims 27-39 were rejected as being obvious based on the "seasoning strategy" described at page 103 of Macklin and Applicant's admitted prior art. The admitted prior art that the Office relies upon is that in a follow-on offering under conventional seasoning strategies pursued by

public companies, the share price for the shares offered in the follow-on offering is based on the existing market price for the outstanding shares. *See* Application, p. 3.

Applicant submits that the claims are nonobvious in view of Macklin (and/or Applicant's admitted prior art) for the following reasons.

1. **<u>The Office Should Be Estopped From Relying on Macklin</u>**

The Office should be estopped from relying on Macklin as a basis for an obviousness rejection since Applicant once before appealed an obviousness rejection based on Macklin and the Office withdrew the rejection in view of Applicant's appeal brief. Specifically, on July 24, 2004, Applicant filed an appeal brief addressing a § 103 rejection based on the same portion of Macklin cited in the then presently-outstanding Office Action. The Macklin § 103 rejection was the only outstanding rejection to the claims at the time. In response to Applicant's appeal, the Office withdrew the Macklin rejection and instead issued a new rejection (a § 101 rejection). *See* Office Action mailed August 11, 2004.

In November 2004, Applicant filed an amendment to overcome the § 101 rejection. In response, in an Office Action dated January 27, 2005, the Office withdrew the § 101 rejection and instead issued, among other things, a renewed §103 rejection based on Macklin. This Office Action was prepared by a then-new examiner for the application.[3]

In response to the January 27 Office Action, Applicant filed a response on April 26, 2005. This response also explained why the claims of the present application were patentably distinct from Macklin. In response, the Office issued the currently-outstanding Office Action,

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[3] This examiner, Examiner P. Bell, was the second examiner assigned to this application. Subsequently, the application was assigned to yet another examiner, Examiner. E. Milef, who is the current and third examiner for the application.

yet again rejecting the claims based on the seasoning strategy described in Macklin. This Office Action was issued by yet another new examiner that has been assigned to the application – the third examiner for this application. Inexplicably, the currently-outstanding Office Action states that Applicant's arguments in the April 26 response about Macklin's seasoning strategy are "moot in view of the new ground(s) of rejection," even though the grounds for rejection are exactly the same -- Macklin.

The repeated § 103 rejections based on Macklin's seasoning strategy violates MPEP § 1208.02, which says that an examiner may only reopen prosecution after appeal to enter *a new ground for rejection*. Applicant has already discharged the § 103 Macklin rejection on appeal, and it is fundamentally unfair and prejudicial for the Office to reinstate the rejection. It is also unfair and prejudicial for the Office to not even consider Applicant's arguments in Applicant's April 26 response as moot when they are not moot, but rather directly on point.

Furthermore, the reinstatement of the Macklin § 103 rejection following the Office's withdrawal in the appeal violates MPEP § 706.04, which says: "Full faith and credit should be given to the search and action of a previous examiner unless there is a clear error in the previous action or knowledge of other prior art. In general, an examiner should not take an entirely new approach or attempt to reorient the point of view of a previous examiner, or make a new search in the mere hope of finding something." The Office has never attempted to explain why the withdrawal of the rejections based on Macklin in view of Applicant's appeal brief amounted to "clear error."

For these reasons, Applicant submits that the Office should be estopped from relying on Macklin's seasoning strategy as a basis for an obviousness rejection since it withdrew the rejections once before when Applicant appealed.

2. <u>The Office Is Relying on Impermissible Hindsight</u>

The Office acknowledges that Macklin's seasoning strategy is different from the process recited in claim 27. *See* Office Action at 5. Nevertheless, the Office rejected claim 27 (and its dependent claims) as being obvious in view of Macklin and the admitted prior art, stating:

> It would have been obvious to one of ordinary skill in the art at the time the invention was made to disclose the number of shares offered, when the shares are to be offered, the amount of time between offering stages and pricing information for subsequent portions prior to the offering as suggested by Macklin et al. because to do so would have been the "OBVIOUS INTENDED USE" of the Macklin et al. "SEASONING STRATEGY."

Office Action at 6 (emphasis in original).

This type of obviousness analysis violates the Office's operating procedures on issuing obviousness rejections. To reach a proper determination on obviousness under § 103, the Office must step backward in time to a point just before the claimed invention was made. In view of all factual information, the examiner must then make a determination whether the claimed invention "as a whole" would have been obvious at that time to a person of ordinary skill in the art. Although the tendency to resort to "hindsight" based upon Applicant's disclosure is often difficult, such hindsight must be avoided. The examiner must put aside the knowledge of the Applicants' disclosure in reaching a determination of obviousness and this legal conclusion must be reached on the basis of the facts gleaned from the prior art and not from the Applicants' disclosure. *See* MPEP § 2142.

In order to guard against engaging in impermissible hindsight, the Office has established the concept of a "*prima facie*" case of obviousness. According to MPEP § 2142, a *prima facie* case of obviousness by the Office has three requirements, one of which is that there must be some suggestion or motivation, either in the references themselves or in the knowledge generally available to one of ordinary skill in the art, to modify the reference or to combine reference

teachings to arrive at the claimed invention. To that end, the MPEP warns that "the mere fact that references *can* be combined or modified does not render the resultant combination obvious unless the prior art also suggests the desirability of the combination." *See* MPEP § 2143.01 (emphasis in original).

Here, the Office cannot establish a *prima facie* case of obviousness because Macklin's seasoning strategy (and/or the admitted prior art) does not teach or suggest the first step of independent claim 27, namely:

> disclosing, prior to the offering, the number of shares to be offered in the offering, that the offering will occur in two or more successive offering stages, the number of shares to be offered in each offering stage, the amount of time between successive offering stages, and pricing information for the shares to be offered in each offering stage.

Moreover, the Office has not identified any rationale for modifying Macklin's seasoning strategy to arrive at the invention of claim 27 other than the conclusory, unsupported (and factually wrong) statement that a company using Macklin's seasoning strategy "would have been inherently capable" and "motivated" to perform the process of claim 27. *See* Office Action at 6. Such conclusory, unsupported statements are classic examples of applying hindsight to conclude that an invention is obvious based on the Applicant's disclosure. Accordingly, the § 103 rejection should be withdrawn and the Office should be required to identify a bona fide rationale for modifying Macklin to arrive at the invention as defined by the claims of the present application.

3. Important Differences Between Macklin and the Claims of the Present Invention Are Evidence of Nonobviousness

The Office is factually wrong when it states that a company using Macklin's seasoning strategy "would have been inherently capable" and "motivated" to perform the claimed process of the present application. *See* Office Action at 6. To the contrary, important differences

between Macklin's seasoning strategy and the process of the pending claims point to the nonobviousness of the claims of the present application.

a. The Present Invention Reduces the Costs, Risks and Delays Inherent in Seasoned Offerings

Macklin's "seasoning strategy" consists simply of doing an IPO (whether underpriced or not) and then letting the market determine the value of the company's stock over time (usually at least a year – thus the word "seasoning"), whereupon a seasoned or follow-on public offering of additional stock can be made. Whether the company conducts a follow-on (or seasoned) offering, however, after the IPO is at the discretion of the company. It may never conduct a seasoned offering. In any event, even if it did conduct a later seasoned offering, the seasoned offering is not legally disclosed, committed to, or scheduled at the time of the IPO. As a consequence, in contrast to the process of the present invention, the offering company will have to incur the costs, risks, and delays of going through a second offering process.

- **Costs:** The additional costs are caused, at least in part, by additional SEC registrations that must be prepared and filed for the seasoned offering. These costs are avoided with the present invention because the inventive method only comprises one offering, for which only one SEC registration would be necessary.

- **Risks:** The risks include that the company will suffer a material adverse event between the IPO and the seasoned offering . Such adverse events may include negative market conditions, negative performance of the company's stock, negative analyst coverage, and/or negative performance by the company itself (which may be precipitated by deficient revenue or cash shortage caused in part by the money left on the table in the IPO). The conditions may depress the amount of revenue recoverable for the company in the seasoned offering or even negate the ability of the company to even do the follow-on

offering in certain circumstances. In fact, the company may not even survive until the follow-on offering. The risks may be avoided with the present invention because the offering stages may occur over a compressed period of time (e.g., a few days or even hours), drastically reducing the likelihood that a material adverse event would occur. If one did occur, the offering would be halted.

- **Delay**: The delays are that the seasoned offering usually occurs (if at all) many months or even years after the IPO, thereby delaying the time when the company can collect the additional capital. In the present invention, however, the company collects the revenue in the IPO stage.

b. The Seasoning Strategy Does Not Address the IPO Underpricing Problem, Unlike the Present Invention

Macklin's seasoning strategy does not provide a solution to the underpricing problem for the IPO.[4] The issuing company in Macklin's seasoning strategy still faces the risk that it will leave money on the table in the IPO. These funds can *never* be recovered – not even in a subsequent follow-on offering – and the lost funds may injure the company going forward.

c. The Present Invention Has Substantial Advantages Over Conventional Seasoning Strategies

In addition to reducing the money left on the table (underpricing) and eliminating the risks, costs and delays of a seasoned offering, there are additional substantial advantages to the

[4] As noted in the IPO literature cited in the Office Action, underpricing is a phenomenon almost entirely restricted to the initial public offering (*see* Christopher B. Barry, et al., "The Opening Price performance of Initial Public Offerings of Common Stock," Financial Management, Vol. 22, Issue 1, Spring 1993, at p. 60 (cited by the Office)), and so a seasoning approach or strategy will not help, since seasoning assumes that an initial public offering has already been made.

method of present invention that are not present in the Macklin seasoning strategy. These advantages include (1) the capability of providing flexible pricing within the stages of the IPO, (2) the opportunity for hedging, arbitrage, and other pricing strategy opportunities for professional and retail investors that are not available in conventional seasoning strategies, and (3) risk containment for both the issuer and the investors that the present invention provides with its predisclosed offering process where the offering particulars are fully disclosed before the first share is sold. Even if a "seasoned" offering could be filed at the time of the initial public offering (which is not possible), such a follow-on offering would not provide these additional substantial advantages.

4. The Office Is Incorrect When It States That A Company Would Be "Inherently Capable" Of Submitting The Paperwork For Initial And Subsequent Offerings At The Same Time

The Office is incorrect when it states that a company using Macklin's seasoning strategy would be "inherently capable of submitting the paper work [*sic*] for the initial and subsequent offerings at the same time to federal security regulators and motivated to be up front [*sic*] about their intentions to use the 'seasoning strategy' in an effort to avoid possible share holder [*sic*] investor law suits [*sic*]." Office Action at 6. There is no way for the company to know what material events will occur between the IPO and subsequent offerings in the Macklin seasoning strategy. Therefore, there is no way for the company to disclose the material events that will impact the sale of the stock in the subsequent follow-on offering. Thus, it is untrue that a

company using Macklin's seasoning strategy would be "inherently capable" and "motivated" to submit the paperwork for the follow-on offering at the time of the first offering (i.e., the IPO).[5]

5. The Persistent Problem of Money Left on the Table in IPOs Demonstrates the Nonobviousness of the Present Invention

In view of the fact that the present invention: (i) reduces the costs, risks and delays associated with a seasoned offering; (ii) mitigates the IPO underpricing problem; and (ii) has substantial advantages over conventional seasoning strategies, it is clear that the present invention, when measured "as a whole," would not have been obvious at that time to a person of ordinary skill in the art. This conclusion is objectively demonstrated by the fact that no company has done an IPO according to the process of the present invention. Indeed, from 1977-1987 alone there was an average return of 16.4% for 4,534 IPOs, computed from the offer price to the closing price on the first day of trading. *See* Christopher B. Barry, et al., "The Opening Price performance of Initial Public Offerings of Common Stock," Financial Management, Vol. 22, Issue 1, Spring 1993 (previously cited by the Office). Since 1990, the U.S. has averaged 35 IPOs per month. *See* <www.financial-gurus.com/investing-rules/3775/Jay-Ritter>. That is an average of 420 per year, or about 5,460 IPOs since the Macklin paper was published in 1992. Yet the underpricing problem continues to remain an issue facing companies going public. If the invention were obvious in view of Macklin, as the Office contends, one would think that at least one company would use a serially-staged offering to address the lingering underpricing problem. The fact that no company has is strong evidence of the nonobviousness of the present invention.

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[5] Applicant is unaware of any instances where a company going public filed an IPO registration statement concurrently with a registration for a subsequent seasoned offering. Nor has the Office cited any such examples, despite its contention that it would be obvious.

Further, the Office Action (at page 11) states that the seasoning strategy does not define any specific interval between the IPO and the follow-on offering, so that one hour is within the range of "obvious choices" and "note the papers on the theory of 'underpricing' cited in this action to support this choice." A seasoned or follow-on offering, however, has never been and cannot be done within one hour, or even one month, so it cannot be or have been an obvious choice to anyone. Also, the examiner does not state which papers on the theory of underpricing would "support this choice" of a one-hour seasoned offering.

6. The Issuance of the Hambrecht Patent Demonstrates the Nonobviousness of the Present Invention

U.S. Pat. 6,629,082 to Hambrecht ("the Hambrecht patent"), issued on September 30, 2003 and filed on July 6, 1999, for an "auction system and method for pricing and allocation during capital formation," was cited by the Office during the prosecution of the present application. The Hambrecht patent recites a method of offering securities which is commonly known as the "Dutch Auction" method.[6] The Hambrecht inventors cite at least one prior art article relating to use of the Dutch Auction in securities auctions. Indeed, the U.S. Treasury has used the Dutch Auction method to sell government securities since 1993, six years before the Hambrecht patent application filing. Essentially, Hambrecht's invention is to apply the Dutch Auction method to the sale of equity securities, rather than debt securities.

If Hambrecht's invention was patentable (and hence nonobvious), then more so, by any measure, is the present invention. The Dutch Auction patented by Hambrecht was quite well known in the securities industry, as evidenced by the fact that the U.S. Treasury used it for debt

[6] The Dutch Auction method is cited by the present application as one of the pricing methods that may be used with the inventive method.

securities. Yet Hambrecht was able to patent the use of a preexisting method (the Dutch Auction) for a different type of security (equity offerings). In contrast to Hambrecht, the present invention is not the simple application of an established method in the securities business to equities rather than debt. It is the creation of a new method not based on existing methods. The Office believes that follow-on stock offerings ("seasoning") make the present invention "obvious," although almost every characteristic of a follow-on offering is different from the present invention. Among other things, the seasoning strategy *relies on material change* in the market or in the company, *but the present invention is predicated on no such material change* within the offering period that would halt the offering.

For these reasons, Applicant submits that claim 27 and its dependent claims are nonobvious in view of the cited prior art and in condition for allowance. *See* MPEP § 2143.03 (stating that if an independent claim is nonobvious, then claims depending therefrom are necessarily nonobvious).

VIII. CONCLUSION

For the foregoing reasons, Applicant submits that the rejections of claims 27-39 in the Office Action are improper and should be reversed.

Respectfully submitted,

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APPENDIX - CLAIMS ON APPEAL

27. A method for offering shares of stock of a privately-held company in an initial public offering, comprising:

disclosing, prior to the offering, the number of shares to be offered in the offering, that the offering will occur in two or more successive offering stages, the number of shares to be offered in each offering stage, the amount of time between successive offering stages, and pricing information for the shares to be offered in each offering stage;

offering a first portion of the shares of the stock of the offering in a first offering stage to investors; and

offering the remainder of the shares of the offering to investors in separate portions over the subsequent one or more offering stages,

wherein at least some communications regarding the offering of the shares over the offering stages are made via a computer network.

28. The method of claim 27, wherein the pricing information includes that the price of the shares offered in at least one of the offering stages is to be determined, at least in part, according to a Dutch auction.

29. The method of claim 27, wherein the pricing information includes that the price of the shares offered in at least one of the offering stages is to be determined, at least in part, according to a direct public offering.

30. The method of claim 27, wherein the pricing information includes that the price of the shares offered in at least one of the offering stages is to be determined, at least in part, according to a traditional IPO pricing.

31. The method of claim 27, wherein the pricing information includes that the price of the shares offered in an offering stage subsequent to the first offering stage is to be calculated based on, at least in part, a trading price for the shares at the close of a prior trading interval.

32. The method of claim 27, wherein the pricing information includes that the price of the shares offered in an offering stage subsequent to the first offering stage will equal a trading price for the shares at the close of a prior trading interval.

33. The method of claim 27, wherein the pricing information includes that the price of the shares offered in an offering stage subsequent to the first offering stage will be calculated based on, at least in part, a percentage of a trading price for the shares at the close of a prior trading interval.

34. The method of claim 27, wherein the pricing information includes that the price of the shares offered in at least one of the offering stages is to be determined according to a combination of at least two of the following pricing models: a Dutch auction, a direct public auction, and traditional IPO pricing.

35. The method of claim 27, wherein the number of shares offered in each offering stage is equal.

36. The method of claim 27, wherein a trading interval between successive offering stages is one hour in duration.

37. The method of claim 27, wherein a trading interval between successive offering stages is one day in duration.

38. The method of claim 27, wherein the time amount between each offering stage has the same duration.

39. The method of claim 27, further comprising, prior to the first offering stage:

auctioning shares of the stock to at least one potential subscriber; and

awarding an allotment of the shares to the at least one potential subscriber at an auction price dependent upon a bid price of the at least one potential subscriber during the auctioning for a quantity of the shares.

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I hereby certify that the original and one (1) copy of the foregoing APPEAL BRIEF OF APPLICANT ROBERT CADOUX is being deposited with the United States Postal Service "Express Mail Post Office to Addressee" service under 37 CFR 1.10 on the date indicated below and is addressed to:

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